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United Nations Office for Project Services

UNOPS: Independent review pertaining to the business model and related issues of the United Nations Office for Project Services*

Joint note of the Management Coordination Committee and the Executive Director

Summary

The present conference room paper is submitted pursuant to paragraph 3 of Executive Board decision 2002/22 of 27 September 2002 and provides a revised budget proposal for an independent review pertaining to the business model and related issues of UNOPS.

Elements of a decision

On the basis of the detailed budget, the Executive Board may wish to request voluntary contributions from interested Member States to finance the independent review, as indicated in the attached terms of reference of Executive Board decision 2002/22.

I. Introduction

1. The present conference room paper provides a detailed budget for an independent review pertaining to the business model and related issues of

* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

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UNOPS, as elaborated in the attached terms of reference for the review found in annex 1 of decision 2002/22.

2. The total cost for the independent review is estimated at $255 750.

II. Detailed budget estimate

3. The terms of reference (TOR) approved by the Executive Board foresee that the independent review will focus on the business model, competitive environment and governance structure of UNOPS (paragraph 7 of the TOR). The review will include an analysis of the revenue and cost structures of UNOPS, its operating margins on products and services and its business processes and management tools at hand (paragraph 8 of the TOR). Comparisons will need to be made with other United Nations, multilateral, bilateral, public and private non-subsidized service providers (paragraph 13 of the TOR).

4. Upon further review of the TOR, it is confirmed that the review requires a core team of three experts in international public administration and service delivery, with specific expertise in public sector management, accounting and restructuring. The core team would be assisted by a full-time analyst to collect and analyze relevant data. The team would also draw on short-term expertise of technical consultants as required. A total of 240 days (60 days each multiplied by 4 individuals on the team) is required for the study, with half of that time spent at United Nations locations. Appropriate resources for travel have been included. The following table presents the details of the budget.

Details of budget

Component	*Cost*
International experts	
(3 x 60 days = 180 days)	$171 000
Data analyst (60 days)	$19 500
Short-term consultants (as required)	$12 000
Travel and per diem	$30 000
Sub-total	**$232 500**
Contingencies (10)	$23 250
Total	**$255 750**

Annex. Terms of reference for an independent review of the business model and related issues of the United Nations Office for Project Services (UNOPS)

Context

1. The United Nations Office for Project Services (UNOPS) was created in 1994 by General Assembly resolution 48/501 as a separate and self-financing entity of the United Nations system, effective 1 January 1995, to act as a service provider to the organizations of the United Nations system (including the Bretton Woods institutions) with no policy mandate of its own.

2. UNOPS offers a broad range of services, from overall project management to the provision of single inputs. In responding flexibly to its clients' demands, UNOPS tailors services to their particular needs, applies methods for attaining cost-effective results and mobilizes diverse implementing partners.

3. At its annual session 2002, the Executive Board of the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA) expressed concern that UNOPS administrative expenditure had not been aligned with its income in the last two years, resulting in an operating deficit of $5.6 million in 2001 and the progressive erosion of its operational reserve to $5 million by the end of 2001, a level in the operational reserve substantially below that required by decision 2001/14. Accordingly, the Executive Board decided to carry out an independent review of the business model of UNOPS, its cost effectiveness and the scope for further expansion of business opportunities for UNOPS within the United Nations system in order to establish a framework for a sustainable UNOPS.

4. The Executive Board requested that the Management Coordination Committee (MCC) and UNOPS submit to the Executive Board for review and approval at its second regular session in September 2002 the draft terms of reference and a timetable for this purpose.

Objective of review

5. The purpose of the review is to formulate a forward-looking strategy for the long-term growth and sustainability of UNOPS to enable it to evolve within the readily evolving market of the United Nations system, including the Bretton Woods institutions. The review will result in a series of recommendations and action-oriented proposals for:

(a) Aligning its cost and revenue structures and identifying areas of business expansion with cost-effective operating margins;

(b) The necessary organizational and financial structure.

Scope of review

6. The Secretary-General, in his note to the Executive Board (DP/2002/CRP.5), reaffirmed his support for the work of UNOPS while laying the ground for operational improvements. Document DP/2002/CRP.5, in conjunction, inter alia, with document DP/2002/CRP.4 and Executive Board decision 2002/2 of January 2002, provides the basis for this review. These documents also reiterated fundamental principles that do not require further review.

7. The review will focus on the business model, competitive environment and the governance structure of UNOPS. The review will therefore assess the potential market for UNOPS services, the competition, including other providers of similar services both within and outside the United Nations system; and the competitive advantage of UNOPS within that marketplace.

8. The review will include an analysis of the revenue and cost structures of UNOPS, its operating margins on products and services and its business processes and management tools at hand. Essential elements for consideration by the review include income projections methodology and application, competitiveness, cost-effectiveness and self-financing.

9. *Competitiveness*. In order to position UNOPS to compete successfully in the marketplace and thus to ensure its long-term financial viability, it will be necessary to assess the performance of UNOPS vis-à-vis currently accepted practice in international public procurement and project management. This will include a review of issues of cost-effectiveness, provision of value to the marketplace, income-projection methodology and application, openness in tendering procedures, transparency and accountability, which are central to current standards and best practices in project management and international public procurement. The review will also include an overview of the market for products and services currently offered or potentially available from UNOPS, for which there is a growing demand and for which UNOPS is able to provide quality service and cost-effective operating margins. The review should include an assessment of all possible clients within the United Nations who may have a need for such services. The review will also investigate the reasons for a loss of clients, if applicable.

10. *Cost-effectiveness*. The review should identify the extent to which revenue matches the costs of providing products or services. A review of the cost structure should include fixed and variable costs and identify scope for improved cost-effectiveness in terms of business processes and procedures, organizational structure, location and so forth.

11. *Self-financing*. This means providing accurate model(s) for measuring cost-recovery in a multi-year programme environment with operational surges and potential low periods. This should include an assessment of systems in place for monitoring and measuring costs and increasing efficiencies. Scenario-based projections of UNOPS finances and the impact on the operational reserve with details of assumptions behind the projections must be included. Systems, procedures and contractual modalities appropriate for a self-financing entity, which faces fluctuations in demand and which allows

UNOPS to moderate volatility by adapting flexibly to operational peaks and troughs, should also be considered. A review of the United Nations regulations governing staff and the operations of UNOPS should be included with a view to identify rules and regulations that are more restrictive than those of private operations, thus affecting UNOPS competitiveness. Particular attention should be paid to the possibility of flexible-staffing arrangements, rules and procedures, which allow UNOPS to expand and contract its capacity rapidly in response to changing demand.

Approach

12. The review will take stock of the conclusions and recommendations of the already available decisions, reviews and evaluations.

13. Comparisons should be made with other United Nations, multilateral, bilateral public and private non-subsidized service providers in the areas of project management, including execution, implementation, supervision, loan administration, formulation, advisory and other services, with a view to identifying good practices in terms of flexible, effective and efficient business models and processes. The comparisons will also include an assessment of and recommendations on the division of labour within the United Nations system concerning procurement services.

Outputs

14. The review will build on prior reviews in that it would present a set of recommendations and action-oriented proposals for the strengthening of the UNOPS contribution to the United Nations system for the future. Such recommendations and action proposals may include:

(a) Positioning UNOPS in the United Nations system in order to bring to full fruition the benefits derived from the UNOPS business model;

(b) Mechanisms to enable UNOPS to adjust flexibly to fluctuations in demand through a more adaptable cost structure and efficient business processes;

(c) Identification of areas of potential business growth based on market demand and cost-effective operating margins;

(d) Tools required for change-management from an organizational perspective, including, inter alia:

(i) Financial: definition of self-financing, budget cycle and operational reserve(s), accounting systems;
(ii) Human: staffing model, incentives, accountability, management of administrative costs; and
(iii) Management: structure, oversight systems and reporting to the MCC and Executive Board, information technology needs in the immediate and longer term.

Logistics and budget

15. The review team will have access to all decisions, reviews, reports and documentation, including questionnaires and surveys and field mission reports from previous reviews and studies; thus avoiding the need for further comprehensive surveys. To supplement the desk material, the team will have full access to members of the Executive Board, the current and incoming Executive Director of UNOPS, UNOPS staff, clients, beneficiaries and partners. During the review, the team will liaise with the MCC, including the Executive Director.

16. The duration of the review is estimated at 90 days. The core team will be comprised of three experts in international public administration/service delivery with specific experience in public sector management, particularly accounting and restructuring humanitarian activities of the United Nations system. The team should be able to draw on short-term consultancies, not to exceed 30 working days in total, of specialized expertise in accounting or other of organizations. One of the team members should be intimately familiar with the development cooperation market within the United Nations system. The team should also have familiarity with peacekeeping and disciplines as required. The total number of working days, therefore, is budgeted at 120, which would represent approximately $200 000.

17. The actual cost of the review will depend on team composition and overall approach to the review (inclusive or exclusive of field visits and so forth). No budgetary allocation is foreseen in the UNOPS budget approved by the Executive Board at its annual session 2002. Members of the Executive Board may wish to consider voluntary contributions to finance the review.